ORIGINAL

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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UNITED STATES OF AMERICA

- v -

MORRIS E. ZUKERMAN,

Defendant.

- - - - - - - - - - - - - - - - - - -x

SEALED INDICTMENT

S1 16 Cr. 194

USDC SDNY
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The Grand Jury charges:

I. BACKGROUND: PERTINENT INDIVIDUALS, ENTITIES, AND TRANSACTIONS

A. MORRIS E. ZUKERMAN and the Zukerman Family Trust

1. At all times relevant to this Indictment MORRIS E. ZUKERMAN, the defendant (hereinafter "ZUKERMAN" or "the defendant"), was a resident of New York, New York, where he owns and maintains a duplex cooperative apartment on Manhattan's Upper East Side. The defendant also owns and maintains a vacation residence located on a small island off the coast of Maine, near Mount Desert Island.

2. The Zukerman Family Trust is a trust that MORRIS E. ZUKERMAN, the defendant, caused to be formed in or about 1992 for the benefit of three family members (hereinafter "Family Member-1," "Family Member-2," and "Family Member-3," each of whom is a one-third beneficiary. Pursuant to its terms, the Zukerman Family Trust is a "complex trust," which, under the

Internal Revenue Code and associated regulations, is required to file a U.S. Income Tax Return for Estates and Trusts, Form 1041, for each year in which the trust has either (i) taxable income or (ii) gross income of $600 or more, irrespective of whether it has taxable income. At all times relevant to this Indictment, ZUKERMAN controlled the affairs of the Zukerman Family Trust and served as its trustee.

3. Between at least 2007 and the date of this Indictment, MORRIS E. ZUKERMAN, the defendant, together with his wife, has maintained and controlled custodial bank accounts on behalf of Family Member-1, Family Member-2, and Family Member-3, each of whom is over thirty-two (32) years of age.

4. Between at least 2008 and the date of this Indictment, MORRIS E. ZUKERMAN, the defendant, and his wife have employed at least two domestic employees at their residences. Household Employee-1 is a full-time housekeeper who has been employed by ZUKERMAN for almost three decades and who performs duties such as cooking, cleaning, laundry, and other household errands at the ZUKERMAN's Manhattan residence and, for approximately a month every summer, at ZUKERMAN's residence in Maine. Household Employee-1 is paid partially in cash and partially by check. Household Employee-2, who also reports to

the defendant's Manhattan residence on a daily basis and to the Maine residence for a month every summer, performs household duties such as dog walking, laundry, and hanging of various paintings owned and controlled by the defendant. Household Employee-2 is paid exclusively in cash.

B. MORRIS E. ZUKERMAN's Corporate Entities

5. Beginning in at least 1988 and continuing until the date of this Indictment, MORRIS E. ZUKERMAN, the defendant, has owned, operated, and/or controlled a group of corporate entities engaged in various business activities, including the purchase and sale of assets and businesses in the energy sector. Prior to operating his own corporate entities, ZUKERMAN, who has a Master of Business Administration degree, served as a managing director at a leading investment banking firm in New York.

6. The parent company among the business entities controlled by MORRIS E. ZUKERMAN, the defendant, is M.E. Zukerman & Company, Inc. ("MEZCO"), a Delaware-registered Subchapter C corporation of which ZUKERMAN has served as president and chief executive officer since its formation in or about 1988. Although it has utilized a Delaware address for incorporation and registry purposes, MEZCO has at all times maintained its corporate headquarters in midtown Manhattan.

7. MEZCO has various subsidiary companies, including M.E. Zukerman Energy Investors, Inc. ("MEZ Energy"), M.E. Zukerman Investments, Ltd. ("MEZIL"), M.E. Zukerman Specialty Oil Acquisition Corp. ("MEZ Acquisition"), and M.E. Zukerman Specialty Oil Corp. ("MEZSOC"), all of which are Delaware-registered Subchapter C corporations that operated and conducted business out of MEZCO's offices in Manhattan. Between at least 2001 and 2006, MEZCO and the aforementioned subsidiaries filed a single U.S. Corporate Income Tax Return, Form 1120 ("Form 1120"), as part of a consolidated group.

8. As described in more detail below, beginning in or about mid-2008, MORRIS E. ZUKERMAN, the defendant, caused MEZSOC to be removed from the MEZCO consolidated group for tax reporting purposes and to fail to file with the Internal Revenue Service ("IRS") a Form 1120 for each and every year from 2007 to the present, during which time MEZSOC received over $117 million in income and owed to the IRS over $31 million in income taxes – none of which was paid.

9. Bodley Investment Company ("Bodley") was a Delaware-registered Subchapter C corporation controlled by MORRIS E. ZUKERMAN, the defendant, as its president and sole corporate officer, but was not part of the MEZCO consolidated

group. Largely dormant between 2006 and 2012, Bodley's affairs were conducted by ZUKERMAN out of MEZCO's New York offices.

10. Arkriver Pty. Ltd. ("Arkriver") is an Australia registered corporate entity that is owned indirectly by the Zukerman Family Trust and controlled by MORRIS E. ZUKERMAN, the defendant. Although Arkriver has no employees, no offices, and was largely dormant between 1995 and 2013, ZUKERMAN controlled and maintained an Arkriver bank account in New York, New York, which ZUKERMAN caused to be opened in or about 2007.

11. San Ysidro Corporation is a Delaware registered Subchapter C corporation that is owned by the Zukerman Family Trust and controlled by MORRIS E. ZUKERMAN, the defendant. San Ysidro Corporation is involved principally in various agricultural activities in central California, including the ownership and operation of vineyards. Although San Ysidro Corporation's operations are conducted largely out of California, ZUKERMAN controlled and maintained separate San Ysidro Corporation bank accounts from MEZCO's offices in New York, New York.

12. United California Citrus East, Inc. and United California Citrus West, Inc. (collectively "United California Citrus"), Delaware registered Subchapter C corporations, and San

Ysidro Vineyards, LLC, a Delaware limited liability company, are subsidiaries of San Ysidro Corporation and are involved in, respectively, the growth and sale of citrus products and grapes. Like San Ysidro Corporation, the affairs of United California Citrus and San Ysidro Vineyards are controlled by MORRIS E. ZUKERMAN, the defendant. For the tax years 2011 through 2013, San Ysidro Corporation filed a consolidated U.S. Corporation Income Tax Return, Form 1120, together with affiliates San Ysidro Vineyards and United California Citrus, among other companies.

13. In or about May 2005, San Ysidro Vineyards entered into a loan agreement (Loan # 176947) with an insurance company (the "Insurance Company") pursuant to which San Ysidro Vineyards borrowed approximately $5,100,000 to fund its California agricultural operations. Pursuant to the terms of the loan agreement, which was signed by MORRIS E. ZUKERMAN, the defendant, as San Ysidro Vineyards' president, San Ysidro Vineyards was obligated to make periodic payments of interest and principal. In or about January 1998, United California Citrus entered into a loan agreement (Loan # 172019) with the Insurance Company pursuant to which it borrowed approximately $6,250,000 to fund its California operations. Pursuant to the

terms of the loan agreement, United California Citrus was obligated to make periodic payments of interest and principal. Collectively, the loans will be referred to herein as "the agricultural loans."

C. **ZUKERMAN's Accountants and Tax Preparers**

14. MORRIS E. ZUKERMAN, the defendant, did not employ an in-house accountant at MEZCO. Instead, he divided his accounting and tax preparation work by using various external firms or individuals for different tax reporting tasks: a New Jersey-based accounting firm ("Accounting Firm-1") handled preparation of Forms 1120 for MEZCO and its subsidiaries; a Long Island-based accounting firm ("Accounting Firm-2") handled preparation of U.S. Individual Income Tax Returns, Forms 1040 ("Forms 1040"), and gift tax returns for ZUKERMAN and his wife; and a Long Island-based accountant ("Tax Preparer-1"), whom ZUKERMAN paid in cash, handled preparation of Forms 1120 for certain of ZUKERMAN's largely dormant entities, including Bodley. ZUKERMAN also tasked an in-house MEZCO employee, who had little or no formal accounting and tax preparation training ("the Bookkeeper"), with certain accounting and tax-related functions, such as making accounting entries for the C corporations in the MEZCO consolidated group, and handling

various accounting, tax-filing, and other responsibilities for certain corporate entities, including the San Ysidro Corporation, of which ZUKERMAN gave the Bookkeeper the title of Controller. ZUKERMAN also directed the Bookkeeper to prepare Forms 1040 for Family Member-1, Family Member-2, and Family Member-3 from 2007 until in or about 2012, when ZUKERMAN caused those duties to be transferred to Accounting Firm-2.

D. The Purchase and Subsequent Sale of The Oil Company

15. In or about February 2001, MORRIS E. ZUKERMAN, the defendant, caused MEZSOC to purchase, for approximately $70 million, a 50% interest in a Texas company (the "Oil Company") that manufactured and marketed a wide variety of specialty petroleum products. The Oil Company was the sole asset of MEZSOC, which in turn was the sole asset of MEZ Acquisition, an entity ZUKERMAN caused to be created as part of the purchase of the Oil Company.

16. Pursuant to a letter of understanding dated July 27, 2007, MEZSOC and the owner of the remaining 50% share of the Oil Company (the "Co-owner") agreed to sell their respective 50% interests to a third party for approximately $275 million, subject the execution of a binding sales contract ("the external sale"). Following the execution of that contract, a closing

occurred on or about January 1, 2008, resulting in the consummation of the external sale by MEZSOC and the Co-owner of their respective 50% shares of the Oil Company. On or about January 3, 2008, MEZSOC's bank account in New York received a wire transfer of approximately $110,000,000, representing MEZSOC's net proceeds of the sale of its 50% interest in the Oil Company. According to calculations maintained by Accounting Firm-1, MEZSOC's adjusted tax basis in its 50% interest in the Oil Company at the time of the external sale was approximately $48 million.

II. OVERVIEW OF THE DEFENDANT'S CRIMINAL CONDUCT

17. As detailed below, between at least 2007 and continuing until 2014, MORRIS E. ZUKERMAN, the defendant, committed numerous tax crimes and related criminal offenses, resulting in the evasion of over $45 million of federal and state income and sales and use taxes. ZUKERMAN's tax and other crimes included the following:

(a) ZUKERMAN schemed to evade over $31 million in corporate income taxes due and owing to the IRS by MEZSOC, which failed to report to the IRS and pay income taxes on the 2008 sale of MEZSOC's interest in the Oil Company, and failed to report and pay taxes on over $9 million dollars of operating income received during 2007.

(b) Following the sale of the Oil Company, ZUKERMAN transferred the proceeds of the sale from MEZSOC to the Zukerman Family Trust and various corporations he controlled, including MEZIL. Between 2008 and 2013, ZUKERMAN directed that over $50 million of the funds transferred to MEZIL be used to purchase, from various galleries and auction houses, paintings by European artists from the 15^{th} through the 19^{th} centuries (hereinafter the "Old Master paintings"), which paintings ZUKERMAN used to decorate his Upper East Side apartment and the apartments of Family Member-1 and Family Member-2.

(c) In connection with the purchase of the Old Master paintings, ZUKERMAN schemed to defraud New York State of over $4.5 million of sales and use taxes by directing that the paintings, which were frequently purchased from galleries located blocks from ZUKERMAN's Manhattan residence, be shipped by the galleries to ZUKERMAN's corporate addresses located in Delaware and New Jersey, and transported immediately thereafter (sometimes within minutes), by ZUKERMAN and others, back to ZUKERMAN's residence in New York - all without the payment to New York State of sales or use taxes. ZUKERMAN further schemed to defraud New York State of sales and use taxes by using his corporate address in New Jersey to be listed on an invoice for a $645,000 pair of diamond earrings he purchased in Europe from a London and New York-based jeweler who turned over possession of the earrings to a member of ZUKERMAN's family in Manhattan but charged no sales tax, based on the out-of-state address provided by ZUKERMAN.

(d) ZUKERMAN diverted corporate assets from MEZCO and other entities he controlled by directing that hundreds of thousands of dollars of fee income be paid between 2007 and 2013 to Family Member-1, Family Member-2, and Family Member-3, for which they performed little or no work; and by directing that corporate funds be used to pay compensation to, and health care insurance for, Household Employee-1, whom MORRIS E. ZUKERMAN caused to be falsely identified as a MEZCO employee to ZUKERMAN's corporate health care provider when, in truth and fact, she worked exclusively out of ZUKERMAN's homes as a domestic employee.

(e) ZUKERMAN signed joint Forms 1040 for himself and his wife for the tax years 2007 through 2013 that fraudulently claimed millions of dollars of false deductions and expenses related to one or more of ZUKERMAN's corporations; omitted significant amounts of income; and falsely under-reported hundreds of thousands of dollars of cash and other wages, including wages diverted from one or more of ZUKERMAN's companies, paid to the defendant's domestic employees. Among the false deductions claimed by ZUKERMAN on his Forms 1040 were those based on the fraudulent claim that ZUKERMAN had contributed a total of $1 million in 2009 and 2011 to a conservation charity whereas, in truth and fact, ZUKERMAN made no charitable gift and instead used the $1 million to purchase for himself and his family over 240 acres on an island off the coast of Maine.

(f) ZUKERMAN caused the preparation of Forms 1040 for Family Member-1, Family Member-2, and Family Member-3 for the tax years 2007-2012 that fraudulently claimed hundreds of thousands of dollars of false deductions and expenses.

(g) ZUKERMAN failed to file trust tax returns, Forms 1041, for the Zukerman Family Trust for the tax years 2007-2010 and 2012.

(h) ZUKERMAN caused various false statements and misleading information to be transmitted to IRS auditors who conducted audits of ZUKERMAN and Bodley.

A. Evasion of Taxes on Income from, and the Sale of, the Oil Company

18. In mid-2008, months after the January 1, 2008 sale by MEZSOC of its interest in the Oil Company, a certified public accountant from Accounting Firm-1 ("the CPA") began working on the MEZCO 2007 consolidated tax return, an initial draft of which reported significant taxable income, attributable principally to operating income received by MEZSOC during 2007 from the Oil Company. When the CPA informed MORRIS E. ZUKERMAN, the defendant, of the likely tax liability for the consolidated group, ZUKERMAN asked the CPA to identify the entity or entities in the group responsible for generating the taxable income. After the CPA identified that the tax liability was attributable largely to MEZSOC's operating income from the Oil Company, ZUKERMAN told the CPA that his tax calculations were mistaken because MEZSOC (the owner of 50% of the Oil Company at the time) had been sold to the Zukerman Family Trust in early 2007 ("the internal sale"). The net tax reporting effect of this purported internal sale would be that, separate and apart from the Form 1120 filed by MEZCO, MEZSOC would be obligated to file its own Form 1120 tax return starting in the tax year 2007, which the CPA was not responsible for preparing.

19. When the CPA, who had not previously been informed of the alleged internal sale of MEZSOC to the Zukerman Family Trust, asked MORRIS E. ZUKERMAN, the defendant, for the particulars of this transaction, ZUKERMAN first falsely told the CPA that the sales price had been $48 million, which figure was based on an internal MEZCO document suggesting that MEZSOC's tax basis in the Oil Company was approximately $48 million in 2007. In support of the $48 million sales figure, ZUKERMAN sent to the CPA via fax, on or about September 12, 2008, a promissory note (the "$48 Million Note") pursuant to which the Zukerman Family Trust purportedly promised to pay $48 million to MEZ Acquisition, MEZSOC's corporate parent, for MEZSOC. Although that note bore a January 1, 2007 date and ZUKERMAN's signature, it was, in truth and fact, created at ZUKERMAN's direction on the MEZCO computer system in or about early September 2008. Also created at the same time at ZUKERMAN's direction was a false and fraudulent resolution of the board of directors of MEZ Acquisition, bearing ZUKERMAN's signature and the date January 1, 2007, which resolved that all the shares of MEZSOC held by MEZ Acquisition be sold to the Zukerman Family Trust for $48 million and that the "consideration" for the purchase would be the $48 Million Note.

20. Upon being informed by MORRIS E. ZUKERMAN, the defendant, of the $48 million sales price, the CPA told ZUKERMAN that use of that sales price figure would still result in significant taxable income because, according to the CPA's records, MEZSOC's adjusted tax basis was approximately $24 million, resulting in an approximate net taxable gain of $24 million. After hearing of the significant tax liability based on the alleged $48 million sales price, ZUKERMAN revised the sales price information, telling the CPA that the sales price agreed to be paid by the Zukerman Family Trust for MEZSOC had actually been $25 million and not $48 million, resulting in an approximate net gain to MEZ Acquisition of less than $1 million. ZUKERMAN further informed the CPA that, as evidence of the $25 million sales price, the Zukerman Family Trust had provided a $25 million promissory note (the "$25 Million Note") to MEZ Acquisition.

21. As a result of the revised information provided to the CPA by MORRIS E. ZUKERMAN, the defendant, the CPA asked ZUKERMAN in November and December 2008 for the documents relating to the sale of MEZSOC to the Zukerman Family Trust. The CPA made this request because he would have to report the $25 million internal sale of MEZSOC to the Zukerman Family Trust on

the 2007 MEZCO consolidated tax return, and he wanted documentary support for the oral information ZUKERMAN had provided. ZUKERMAN ultimately caused the $25 Million Note to be faxed to the CPA in or about July 2010. Like the $48 Million Note and the Board Resolution, the $25 Million Note bore a January 1, 2007 date and the signature of MORRIS E. ZUKERMAN, but it was not created until in or about September 2008 - over twenty months after the purported execution date and over eight months after MEZSOC had sold the Oil Company.

22. Based on the representation by MORRIS E. ZUKERMAN, the defendant, that MEZSOC had been sold by MEZ Acquisition to the Zukerman Family Trust for $25 million, the 2007 MEZCO consolidated tax return, Form 1120, falsely and fraudulently reported the January 1, 2007 sale of MEZSOC by MEZ Acquisition for a sales price of $25 million and an adjusted basis of $24,501,577, resulting in a capital gain of $498,423. ZUKERMAN signed the 2007 Form 1120 for MEZCO and caused it to be filed with the IRS in late September 2008.

23. As a result of the sale of MEZSOC to The Zukerman Family Trust, MEZSOC was taken out of the consolidated tax reporting for the MEZCO group and was thus obligated to file its own Form 1120 beginning with the 2007 tax year. MORRIS E.

ZUKERMAN, however, caused MEZSOC to fail to file a Form 1120 with, and pay income taxes to, the IRS for the 2007 tax year. ZUKERMAN also caused MEZSOC to fail to file a Form 1120 with, and pay income taxes to, the IRS, for the 2008 tax year - the year in which MEZSOC received $130 million in gross sales proceeds as a result of its sale of the Oil Company. In addition, ZUKERMAN failed to file a trust tax return, Form 1041, with the IRS for the Zukerman Family Trust for the tax years 2007 and 2008, when it was the owner of MEZSOC.

24. For the tax years 2007 and 2008, MEZSOC had income in the approximate amounts and types set forth below, resulting in tax liabilities in the approximate amounts set forth below, which MORRIS E. ZUKERMAN, the defendant, caused MEZSOC to fail to report and pay to the IRS:

TAX YEAR	**APPROXIMATE AMOUNT OF TAXABLE INCOME**	**NATURE OF TAXABLE INCOME**	**APROXIMATE TAX DUE AND OWING**
2007	$9,700,000	Partnership income received as a result of ownership of the Oil Company	$3,395,000
2008	$80,000,000	Income from the sale of the Oil Company	$28,000,000

25. Between 2008 and 2013, MORRIS E. ZUKERMAN, the defendant, caused the $110 million in net proceeds obtained by

MEZSOC from the sale of the Oil Company to be transferred, without consideration, from the bank account of MEZSOC to the accounts of various entities he controlled, including the Zukerman Family Trust, MEZIL, and MEZ Energy. ZUKERMAN thereafter caused those proceeds to be used for various corporate and personal purposes, including the purchase, through MEZIL, of over $50 million of Old Master paintings that ZUKERMAN used to decorate his Manhattan apartment and the apartments of Family Member-1 and Family Member-2. To date, none of the funds have been returned to MEZSOC, and no interest payments have been made to MEZSOC by any of the ZUKERMAN transferee entities, including the Zukerman Family Trust and MEZIL.

B. The False Reporting of the Purchase and Sale of an Interest in the Oil Company on the Bodley Tax Return

26. Despite the fact that MEZSOC had sold its complete interest in the Oil Company to a third party on January 1, 2008 for over $130 million in gross sales proceeds, MORRIS E. ZUKERMAN, the defendant, provided false information to Tax Preparer-1 to the effect that Bodley had purchased a 10% interest in the Oil Company from MEZSOC in 2008, and that Bodley had subsequently sold that 10% interest to the third party during 2008. As a result, Tax Preparer-1 prepared a Form 1120

for the 2008 tax year for Bodley that falsely reported to the IRS that Bodley had income from the "sale" of its interest in the Oil Company. In fact, no such purchase or sale had occurred. As set forth below, ZUKERMAN orchestrated this false tax reporting for three reasons: (i) to attempt to make use of unrelated capital losses Bodley had recognized during the 2008 year, which would eliminate completely any potential tax liability stemming from the false reporting of a corresponding capital gain on the Bodley "10% interest"; (ii) to provide bogus support for the below-market $25 million price he attached to the sale of MEZSOC to the Zukerman Family Trust; and (iii) to make it appear that a portion of the Oil Company sale was being reported to the IRS.

27. To effectuate the false tax reporting by Bodley, MORRIS E. ZUKERMAN, the defendant, provided certain written and other information to Tax Preparer-1 in or about July 2009, causing Bodley to claim on its 2008 Form 1120 that it had acquired a 10% interest in the Oil Company from MEZSOC on January 2, 2008 in exchange for a $2.5 million note (one-tenth of the alleged $25 million sale price of MEZSOC to the Trust), and sold that interest on December 31, 2008, for $11,100,500, resulting in a capital gain of approximately $8.6 million. As

intended by ZUKERMAN, however, the reporting of the sale of the Bodley interest in the Oil Company resulted in no tax liability to Bodley because of the unrelated capital losses Bodley had recognized in 2008. ZUKERMAN signed the false Bodley 2008 Form 1120 and caused it to be filed with the IRS in or about September 2009.

C. The IRS's Audit of Bodley and the False Statements Made by ZUKERMAN to the IRS in the Tax Protest Letter

28. Bodley's 2008 Form 1120 was selected for random audit by the IRS, which resulted in the IRS contacting MORRIS E. ZUKERMAN, the defendant, in or about early 2012. At the outset of the audit, ZUKERMAN enlisted the CPA to represent Bodley before the IRS. As part of that representation, the CPA requested that ZUKERMAN provide documents and information relating to Bodley's tax reporting, including its purported purchase and sale of the 10% interest in the Oil Company during 2008.

29. MORRIS E. ZUKERMAN, the defendant, failed to comply with the CPA's request for documents pertaining to Bodley's tax reporting concerning its purported interest in the Oil Company. As a result, the CPA could not produce those documents to the IRS, which led the IRS to conclude its audit of

Bodley by disallowing, among other things, the claim on the 2008 Bodley Form 1120 that it had purchased a 10% interest in the Oil Company on January 2, 2008 for $2,500,000. In connection with this determination, the IRS noted, in an explanation of its decision dated May 24, 2012, that the CPA had acknowledged to the IRS that the CPA did not believe that Bodley had even owned an interest in the Oil Company.

30. In order to challenge the IRS's audit determinations, MORRIS E. ZUKERMAN, the defendant, retained a law firm based in Washington, D.C. (the "Law Firm"), whose attorneys decided to prepare and submit to the IRS Appeals Office a tax protest letter, which is a letter designed to influence the IRS Appeals Officer assigned to review the factual and legal conclusions reached by the IRS agent who conducted the Bodley audit.

31. In order to gather the facts to be included in the protest letter, two attorneys from the Law Firm conducted an interview of MORRIS E. ZUKERMAN, the defendant, on June 1, 2012. During that interview, which occurred over the telephone, ZUKERMAN made the following false representations to the attorneys from the Law Firm concerning Bodley's tax reporting relating to the Oil Company: (i) Bodley and a London-based